

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

REPORT

OF

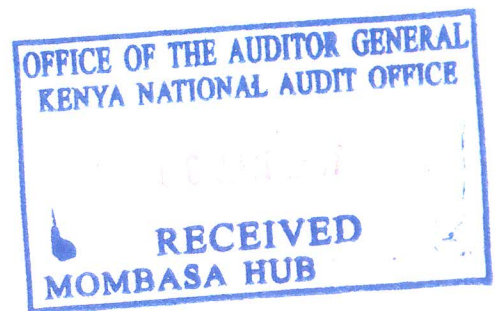
THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
MOMBASA WATER SUPPLY AND
SANITATION COMPANY LIMITED**

**FOR THE YEAR ENDED
30 JUNE 2016**

MOMBASA WATER SUPPLY & SANITATION CO. LTD



**REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2016**

MOMBASA WATER SUPPLY & SANITATION CO. LTD
Report and Financial Statements
FOR THE YEAR ENDED 30TH JUNE 2016

CONTENTS

	PAGES
Corporate Information	1-2
Board of Directors	3-4
Management Team	5
Report of the Directors	6
Report of the Managing Director	7
Statement of Directors' responsibilities	8
Independent auditor's report	9
Financial statements	
Statement of comprehensive income	10
Statement of Financial Position	11
Statement of Cashflows	12
Statement of Changes in Equity	13
Summary of significant accounting policies	14-15
Notes to the Financial Statements	16-21

CORPORATE INFORMATION

Background Information

Mombasa Water Supply and Sanitation Company Limited was established under the Water Act of 2002 and is licensed by CWSB to distribute water and provide sanitation services to residents of Mombasa County. The Company was incorporated in Kenya on 18th March, 2011. At cabinet level, the company is represented by the Cabinet Secretary for Water & Irrigation for the general policy and strategic direction of the sector

Company Vision	To be a Water Service Provider of repute
Company Mission	To provide safe, reliable, affordable water and sewerage services in an efficient and viable manner to the residents of Mombasa County
Registered office	Mikindani Street, Off Nkrumah Road P.O Box 1100 - 80100 Mombasa Kenya
Independent Auditors	Auditor- General Anniversary Towers, University Way P.O Box 30084 - 00100, GPO Nairobi
Principal bankers	Equity Bank Limited P.O.Box 84618 - 80100 Mombasa Housing Finance Corporation P.O. BOX 84839-80100 Moi Avenue Branch Mombasa

Directors

The directors who served the company during this period of audit (July-15 to June-16) were:

- | | |
|-----------------------|---|
| 1. Nicholas Munyi | Chairman |
| 2. Mr. Kombo R. Kombo | Ag MD up to 31st Jan-16 |
| 3. Francis Kombe | Director |
| 4. Ruthyana Mumbua | Director |
| 5. Christine Ockotch | Director |
| 6. Ahmed Farah | Director |
| 7. Mohamed Masumjin | Director |
| 8. Anisa Salim | Director |
| 9. Faiza Bajaber | Director |
| 10. Mohamed Khamis | Director |
| 11. Mohamed Rashid | Director |
| 12. Dr. William Kingi | Director |
| 13. Peter Kimanthi | is the current MD . He assumed office on 1st February, 2016 |

CORPORATE INFORMATION Continued.....

Principal Legal Advisers

1. The Attorney General
State Law Office
Harambee Avenue
P.O. Box 40112
City Square 00200
Nairobi, Kenya

2. Jacqueline Waihenya Maina & CO.
Jubilee Insurance Building
Moi Avenue Mombasa
P. O. Box 777-80100
Mombasa

Corporate Headquarters

Mombasa Water Supply & Sanitation Co Ltd
P.O. Box 1100-80100
Mikindani Street Off Nkrumah Rd
MOMBASA, KENYA

Corporate Contacts

Telephone: (254) 041-2222700
E-mail: info@mombasawater.co.ke
Website: www.mombasawater.co.ke

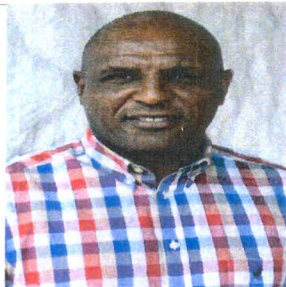
MOMBASA WATER SUPPLY & SANITATION CO. LTD

Reports and Financial Statements

FOR THE YEAR ENDED 30TH JUNE 2016

BOARD OF DIRECTORS

1



Mr. Nick Munyi is the Chairman of the Board. He is a graduate of King College – Tennessee USA with Bachelor of Science and has served in the Tea Industry for over 25 yrs. He is the Managing Director of James Finlay Mombasa Limited and also the current Chairman of EATTA (from 2014 to 2016), a post he has also held previously in the years of 1996-97, 2001-02, 2007-08 respectively. Nick has been credited with transforming the operations at EATTA having been a member of a Task Force formed in 2007 by the then Minister of Agriculture to give a general report on tea industry and tea farmers. He has also served as a board member of Tea Board of Kenya in the year 2003 - 09 and is currently serving as a member of Tea Directorate Promotional Advisory Panel under the Ministry of Agriculture. He is also Chairman of Wema Centre (a rehabilitation centre for street children), a position he has held for the past five years. He also served as the Chairman of Mombasa Sports club in 1999 & 2009 respectively and served Nyali Golf Club in the same capacity in for the 2010 / 2011 calendar year.

2



Director Ahmed Farah was born on 1st April 1974. He is a holder of MA, International Development from Manchester University, UK and Bachelors of Commerce Degree from Kenyatta University. He is an Accountant by Profession and a Certified Internal Auditor (CIA). He boasts of over 15 years of work experience in both public and private sectors providing consulting and assurance services. Currently, he is the Economic Advisor to the Governor, County Government of Mombasa. On Mombasa Water Board, He is the Chair of Finance Committee of the Board and Member of HR Committee.

3



Director Francis Kombe was born in 1961. He is a holder of Masters of Science Degree in Public Health and Epidemiology from Kenyatta University. He is a NEMA registered Lead Expert and Safety Advisor. Currently he is the Chief Officer for the Department of Water Sanitation and Natural Resources , County Government of Mombasa

4



Director Ruthyana Mumbua was born on 28th August 1968. She is currently pursuing Masters of Business Administration Degree. She is a certified Accountant with over 20 years of work experience. She also holds other directorships in Think Safe Consultants and Yattire Eng. Cons. Company

5



Director Rashid was born in 1972 . He holds a Bachelor of Commerce Degree from Toronto University. He has over 15 years work experience and is currently the Executive Vice-Chairman of Milly Group comprising Milly Glass Works Ltd, Milly Fruit Processors and Milly Grain Millers.

6



Director Hamid was born in 1972. He has a Diploma in Business Management from University of Cambridge and a Certificate in Sales and Marketing. He is a former Business Development Manager for Skydesign Ltd and a Volunteer AMKA Community Development Initiative promoting awareness against AIDS/ Drug Abuse

BOARD OF DIRECTORS Continued...

7



Mohamed Masum was born on 3rd July 1952. He is a retired long serving teacher and active player in Education Sector and sports with a bias in activities around Special Education and people living with disability. Besides Mombasa Water, Mr. Masum sits on Boards of Mombasa County Disability Board and County Education Board.

8



Mrs. Anisa Salim was born on 15th October 1963. She holds Diplomas in Institutional Development and Psychology, Counselling and Guidance from Kenya Polytechnic Nairobi. She is the Regional Human Resources Officer- Coast Region, a post she has held since year 1984.

9



Dr. William Kingi was born on 5th January 1970. He is a scholar and holds PhD in Human Resource Management (JKUAT), MSc. Human Resource Management (JKUAT). He is currently the Dean, School of Business at Technical University of Mombasa.

10



Director Christine Ockotch is the Chair of the HR Committee of the Board. She has over 22 years of work experience in Education Sector. She is the Director of Palmaeek Academic Services Ltd. She holds a Bachelors Degree in Education from Kenyatta University and Masters Degree (Middlesex University, UK). Director Christine also holds a Certificate of Corporate Governance and is the Patron of Kenya Private Schools Association, Mombasa Branch.

11



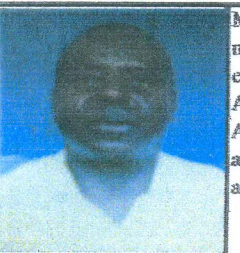
Director Faiza Bajaber was born on 7th October 1972. She has a Bachelors Degree from the University of Nairobi. She weilds over 20 yrs of work experience. She is currently the Project Development Manager at Travellers Beach Hotel.

12



Mr. Kombo R. Kombo is the GM Finance and Ag. Managing Director . He holds a Bachelors degree in Commerce (Accounting), Certified Public Accountant (CPA - K) and a Masters Degree in Business Administration with Eastern & Southern Africa Management Institute(E.S.A.M.I).

13



Mr Peter Kimanhi, the Managing Director has a wealth of experience in financial management, Operations and general management gained from over 20 years work experience in the corporate world. He hold's a bachelor's degree in Business Administration(Accounting) and a master's degree in International Business Administration (Strategic Management). He is a Certified Public Accountant(CPA-K) and a member of the Institute of Certified Public Accountants of Kenya (ICPAK). Peter also holds Certified Public Secretary (CPS-K) qualifications.

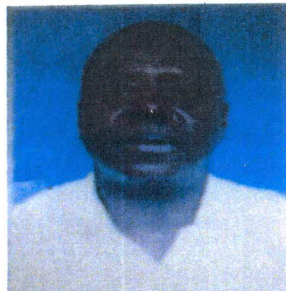
MOMBASA WATER SUPPLY & SANITATION CO. LTD

Reports and Financial Statements

FOR THE YEAR ENDED 30TH JUNE 2016

MANAGEMENT

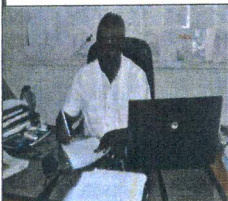
1



Mr. Peter Kimanthi - Managing Director

Mr Peter Kimanthi, the Managing Director has a wealth of experience in financial management, Operations and general management gained from over 20 years work experience in the corporate world. He hold's a bachelor's degree in Business Administration(Accounting) and a master's degree in International Business Administration (Strategic Management). He is a Certified Public Accountant(CPA-K) and a member of the Institute of Certified Public Accountants of Kenya (ICPAK). Peter also holds Certified Public Secretary (CPS-K) qualifications.

2



Stephen O. Oluoch - General Manager
egineering & Strategy

Mr. Stephen Oluoch is in charge of Technical Department and holds Masters In Civil Engineering Hydraulics. He is a member of the Engineers Registration Board. He holds a certificate in Project Management from Kenya Institute of Administration. He has since left the company. His position is currently held by Geoffrey Njeru Kariuki.

3



Jamal A. Ahmed - General Manager Business
and Customer Service

Mr. Jamal A. Ahmed is in charge of Business and Customer Service and holds a Bachelors degree in Arts specialising in Economics from University of Nairobi. He is a Member of Institute of Certified Information System Auditors. He is pursuing a Masters of Business Administration degree at the University of Nairobi. Jamal left the company in March-16 and was replaced by Mr. Wilson Tuigong

4



Mathangani Muya - General Manager Human
Capital and Administration

Mr. Mathangani Muya is in charge of Human Capital and Administration and holds a Bachelors degree in Government and Sociology from the University of Nairobi, a Postgraduate Diploma in Public Administration and Management from Glasgow College of Technology. Mr. Muya exited the company in July-16 and was succeeded by Ms. Caroline Karanja on acting capacity.

5



Mr. Kombo Rajab Kombo - General Manager
Finance

Mr. Kombo R. Kombo is the GM Finance. He acted as the Managing Director upto 31st January-16. He holds a Bachelors degree in Commerce (Accounting), Certified Public Accountant (CPA - K) and a Masters Degree in Business Administration with Eastern & Southern Africa Management Institute(E.S.A.M.I). Mr. Kombo left the company on 8th April 2016 and was succeeded by Mr. Collistant Juma Ndege in acting capacity

REPORT OF THE DIRECTORS

The directors present their report together with the audited financial statements of the company for the year ended 30th June 2016 which show the state of affairs of Mombasa Water Supply and Sanitation Company Limited

PRINCIPAL ACTIVITIES

The principal activity of the company is that of distributing water and sanitation services to the residents of Mombasa County

FINANCIAL RESULTS

	Ksh.
Loss before taxation	(402,415,750)
Taxation charge	Nil
Loss for the year transferred to retained earnings	(402,415,750)

DIVIDENDS

The directors do not recommend the payment of any dividend in respect of the year 2016.

DIRECTORS

The members of the Board who served during the year are shown on pages 3 - 5

AUDITORS

The Auditor General is responsible for the statutory audit of the company's financial statements in accordance with section 35 of the Public Audit Act, 2015 and Public Finance Management Act, 2012



Chairman

MOMBASA WATER SUPPLY & SANITATION CO. LTD
Reports and Financial Statements
FOR THE YEAR ENDED 30TH JUNE 2016

REPORT OF THE MANAGING DIRECTOR

RESULTS

In the year ending 30th June 2016 the company continued making losses after posting a loss of KES 402 Million. This was mainly due to reduction in the water volumes supplied by CWSB and provisions for contingent liability that the company is exposed to.

COMPANY'S STRATEGIC DIRECTION

The company is reviewing its 5-year strategic plan of 2017 that continues to guide its turnaround in performance for the next 2 years. The Board of Directors have competitively filled the position of the MD (effective Feb-16) and senior Management team to guide the company in turnaround process.

THE CHALLENGE

Continued reduction in water volumes supplied and increase in non revenue water remained the biggest challenges during this period of the strategic plan. This was due to political temperatures (following devolution of water provision service to counties as enshrined in the Constitution of Kenya, 2010) around water supply to Mombasa from the neighbouring counties where water sources are and the aging water infrastructure.

THE FUTURE

Although we are in a negative position, I am glad to report that the future is bright. We have so far received development aid through the World Bank and technical support from our development partner, VEI aimed at improving the financial position of the company. We have initiated several water supply improvement projects. The Board of Directors and Management, together with World Bank Consultants are engaged in Management Turnaround Programme that will see the company plug its budget deficit, attain self-sustainability following technological and infrastructural development, construction of additional water sources and fight against NRW. These will improve water flows to the County and substantially reduce the water problems experienced, consequently improving the revenues of the utility.

APPRECIATION

We do not take for granted the support of our customers who have continued to support our operation through timely payment of their bills. To the Management and employees who stand with the company and offer their labour tirelessly, my recognition of your efforts is unconditionally honoured. May we not lose focus as we remain committed to changing the fortunes of Mombasa Water.


Peter Kimanthi
Managing Director

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Kenyan Companies Act and Water Act 2002 require the Directors to prepare Financial Statements for each financial year that give a true and fair view of the state of affairs of the Company as at the end of the financial year and of its operating results for that year. It also requires the Directors to ensure that the Company keeps proper accounting records which disclose with reasonable accuracy at any time, the financial position of the Company. The Directors are also responsible for safeguarding the assets of the Company.

The Directors accept responsibility for the preparation and fair presentation of Financial Statements that are free from material misstatement whether due to fraud or error. They also accept responsibility for:

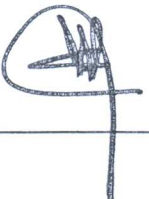
- i) designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the Financial Statements;
- ii) selecting and applying appropriate accounting policies; and
- iii) making accounting estimates and judgements that are reasonable in the circumstances.

The Directors accept responsibility for the Financial Statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and the requirements of the Kenyan Companies Act. The Directors are of the opinion that the Financial Statements give a true and fair view of the state of the financial affairs of the Company as at 30th June 2016 and of its operating results for the year then ended. The Directors further accept responsibility for the maintenance of accounting records which have been relied upon in the preparation of the Financial Statements, as well as on the adequacy of the systems of internal financial controls.


Nothing has come to the attention of the Directors to indicate that the Company will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

The Mombasa Water Supply and Sanitation Company Ltd financial statements were approved by the Board on 3/10 2016 and signed on its behalf by:



Chairman



Director

REPUBLIC OF KENYA

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Fax: +254-20-311482
E-mail: oag@oagkenya.go.ke
Website: www.kenao.go.ke



P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON MOMBASA WATER SUPPLY AND SANITATION COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE 2016

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Mombasa Water Supply and Sanitation Company Limited set out on pages 10 to 21, which comprise the statement of financial position as at 30 June 2016, and the statement of comprehensive income, statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Report of the Auditor-General on the Financial Statements of Mombasa Water Supply and Sanitation Company Limited for the year ended 30 June 2016

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement in the financial statements, whether due to fraud or error. In making those assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for Qualified Opinion

1. Share Capital

As reported in the year 2014/2015, Mombasa Water Supply and Sanitation Company Limited was incorporated on 18 March 2011 to take over services of the defunct Mombasa Water & Sewerage Company Limited which had an authorised share capital of Kshs.5,000,000. However the old Company was not liquidated and no shares have been transferred to the new Company as at 30 June 2016.

Further, out of the new Company's authorised share capital of 5,000 shares of Kshs.1,000 each, only 12 shares valued at Kshs.12,000 were allotted but not paid for, leaving a balance of 4,988 shares un-allotted. However, financial statements reflected issued but not paid share capital of Kshs.5,000,240 in respect of ordinary shares of par value of Kshs.1,000 each and 12 of par value of Kshs.20 each, which is more than the authorised share capital of Kshs.5,000,000. Further, the issued but not paid share capital of Kshs.5,000,240 is also reflected in the receivables as unpaid share capital.

In the circumstance, the accuracy and authenticity of the share capital balance of Kshs.5,000,240 as at 30 June 2016 cannot be confirmed.

2. Trade and Other Payables

Trade and other payables as detailed in Note 10 to the financial statements reflected payroll deductions totaling Kshs.122,848,908, out of which a sum of Kshs.78,005,723 is in respect of unremitted and overdue statutory deductions which are likely to attract interest charges and penalties. Further, disclosed in Note 10 is the trade payables' balance of Kshs.917,879,398, out of which a sum of Kshs.834,591,258 is owed the Coast Water Services Board. However, records maintained by the Board indicate a debt balance of Kshs.1,156,446,496, thus resulting

to a variance of Kshs.321,855,238 and which has neither been explained nor reconciled.

Consequently, the accuracy and completeness of the trade and other payables balance of Kshs.1,295,373,556 as at 30 June 2016 cannot be confirmed.

3. Audit Fees

Note 10 to the financial statements reflect provision for audit fees balance of Kshs.2,384,043 out of which Kshs.1,524,043 has been outstanding for more than one year. No plausible explanation has been provided for the non-payment of the fees.

Qualified Opinion

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of Mombasa Water Supply and Sanitation Company Limited as at 30 June 2016 and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Water Act, 2012 and Companies Act Cap 486 of the Laws of Kenya.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Companies Act, I report based on my audit, that:

- i. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit;
- ii. In my opinion, adequate accounting records have been kept by the Company so far as appears from the examination of those records; and
- iii. the Company's financial statements are in agreement with the accounting records.

Other Matter

1.0 Budgetary Control and Performance

The following observations were made regarding the Company's budgetary control and performance for the year ended 30 June 2016:

1.1 Revenue Budget

During the year under review, the Company's revenue budget amounted to Kshs.1,369,004,697 against actual collections of Kshs.825,307,632 (60%) thus resulting to a shortfall of Kshs.543,697,065 or 40% of the budget as detailed below:

Item	Budgeted Amount (Kshs)	Actual Amount (Kshs)	Revenue Shortfall (Kshs)	%
Water and Sewerage Sales	1,310,904,697	795,095,827	515,808,870	3
Other Income	58,100,000	30,211,805	27,888,195	4
Total	1,369,004,697	825,307,632	543,697,065	4

The under collection may be as a result of over budgeting or non-collection of revenue due to the Company, a situation that may have negatively impacted on its cash flows and operations.

1.2 Under-expenditure

During the year under review, the Company's expenditure budget totaled Kshs.1,202,189,375 and it spent Kshs.865,412,542 or 72% of the budget thus resulting to under-expenditure of Kshs.336,776,833 or 28%.

The under-expenditure indicates that the Company could not implement all the activities in its budget for the year under review.

2.0 Unaccounted for Water

As was the case in the previous years, the statement of comprehensive income for the year ended 30 June 2016 reflects water sales valued at Kshs.669,452,685. Records presented for audit review indicated that during the year under review, the Company produced 14,819,170 cubic meters of water, out of which only 7,474,855 cubic meters or approximately 50.4% was billed to customers. The balance of 7,344,315 cubic meters or approximately 49.6% of the total volume represented unaccounted for water (UFW), which is far above the maximum allowable loss of 25% recommended by Water Services Regulatory Board guidelines. The UFW of 49.6% may have resulted to loss of water sales estimated at Kshs.657,756,851 since the cost of each cubic meter of water is estimated at Kshs.89.56.

Unaccounted for water constraints the Company's profitability and operational sustainability.

3.0 Going Concern

During the year under review, the Company incurred a loss of Kshs.402,415,750 (2015: Loss-Kshs.467,245,473) which brought its accumulated loss to Kshs.1,502,988,136 (2015: Accumulated loss-Kshs.1,100,572,386) as at 30 June 2016. Further, its current liabilities of Kshs.1,318,526,521 exceed current assets of

Kshs.266,737,500 by Kshs.1,051,789,021. In spite of it's current liabilities exceeding it's current assets, the Company's financial statements have been prepared on the going concern basis which assumes continued financial support from the Government, development partners and creditors.

4.0 Human Resource Management

4.1 Recruitment of Staff

Human resource records presented for audit review indicated that during the year under review, the Company recruited twenty two (22) staff members which includes nine (9) for an ongoing Project. However, no evidence was presented a for audit review to confirm that the positions were filled competitively in line with Section 1.1.1 of the Company's Human Resource Policy, 2012 which requires all vacant positions be advertised internally and externally in order to attract the most suitable candidates.

Consequently, the recruitment of the twenty (22) employees is contrary to the Law and is therefore irregular.

4.2 Employees Serving on Expired Contracts

The Company's human resource records presented for audit review indicated that the Company had in its payroll five (5) employees whose contracts of employment had expired without requests for renewal or approval of new contracts, contrary to Section 3.8.2 of the Company's Human Resource Policy, 2012 which provides that 'employees serving on contract terms of service who wish to have their contracts renewed shall tender to the Managing Director written requests not more than six (6) months and not less than three (3) months before the expiry of their respective contracts'. Further, the Office of the President Circular No. OP/CAB.2/7A of 14 February 2014 requires all officers aged fifty-eight (58) years and above to have duly identified successors to enable smooth exit from the service when they attain the mandatory retirement age of sixty (60) years.

The continued retention of the employees in the payroll is therefore irregular.

My opinion is not qualified in respect of these matters.



FCPA Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

10 February 2017

MOMBASA WATER SUPPLY & SANITATION CO. LTD
 Reports and Financial Statements
 FOR THE YEAR ENDED 30TH JUNE 2016

STATEMENT OF COMPREHENSIVE INCOME
 FOR THE YEAR ENDED 30TH JUNE 2016

	Notes	2016 Kshs	2015 Kshs
Water Sales	12	669,452,685	702,972,317
Sewerage Sales	12	125,643,142	131,978,688
Cost of sales	13	(362,310,840)	(395,542,225)
Gross Profit (Loss)		432,784,987	439,408,780
Other Income	14	30,211,805	30,733,869
		462,996,792	470,142,649
Operation and Maintenance	15	40,525,356	62,998,035
Administration Costs	16	101,400,998	103,610,693
Staff Costs	17	471,379,787	370,513,110
Legal and Professional	18	26,079,905	9,933,379
Transport & Travelling	19	17,772,505	22,547,861
Directors Expenses	20	7,433,354	3,447,074
Advertising & Publicity	21	10,585,035	5,799,065
Finance Costs	23	2,402,548	2,198,068
Other Operating Expenses	22	187,833,055	356,340,838
Total Operating Expenses		865,412,542	937,388,122
Operating (Loss)/ Profit		(402,415,750)	(467,245,473)
Profit/(Loss) before tax		(402,415,750)	(467,245,473)
Balance Brought Forward		(1,100,572,386)	(633,326,913)
Loss Carried Forward		(1,502,988,136)	(1,100,572,386)

MOMBASA WATER SUPPLY & SANITATION CO. LTD

Reports and Financial Statements

FOR THE YEAR ENDED 30TH JUNE 2016

STATEMENT OF FINANCIAL POSITION

AS AT 30TH JUNE 2016

	Note	2016 Kshs	2015 Kshs
ASSETS			
Non-Current Assets			
Property, plant and equipment	5	59,873,149	64,053,816
Amount due from shareholders	7	5,000,240	5,000,240
Total Non-Current Assets		64,873,389	69,054,056
Current Assets			
Trade and other receivables	8	239,236,802	329,376,126
Bank and cash balances	6	27,500,698	8,714,971
Total Current Assets		266,737,500	338,091,097
TOTAL ASSETS		331,610,889	407,145,153
EQUITY AND LIABILITIES			
Capital and Reserves			
Ordinary share capital	2	5,000,240	5,000,240
Capital reserve	4	485,003,469	485,003,469
Retained earnings	3	(1,502,988,136)	(1,100,572,386)
Capital and Reserves		(1,012,984,427)	(610,568,677)
Non-Current Liabilities			
Service gratuity	9	26,068,794	18,171,759
Total Non-Current Liabilities		26,068,794	18,171,759
Current Liabilities			
Trade and other payables	10	1,295,373,556	970,669,111
Provision for leave pay	11	23,152,965	28,872,959
Total Current Liabilities		1,318,526,521	999,542,071
TOTAL EQUITY AND LIABILITIES		331,610,888	407,145,153

The financial statements were approved by the Board on 31/07 2016 and signed on its behalf by:

Chairman

Director

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30TH JUNE 2016

	Note	2016 Kshs	2015 Kshs
Cash flows from operating activities			
(Loss) before income tax		(402,415,750)	(467,245,473)
Adjustments for:			
Armortisation and Depreciation on property, plant and	5	9,721,207	10,164,658
Operating loss before working capital changes		(392,694,543)	(457,080,815)
(Increase) / decrease in:			
Trade and other receivables	8	90,139,324	243,246,614
Increase / (decrease) in:			
Trade and other payables	10	324,704,445	208,674,655
Provision for leave pay	11	(5,719,994)	4,394,793
Service gratuity payable		7,897,034	1,317,729
Cash generated from operations		24,326,266	552,976
Tax Paid		-	-
Net cash (used in) operating activities		24,326,266	552,976
Cash flows from investing activities			
Purchase of PPE	5	(5,540,540)	(10,004,261)
Net cash (used in) investing activities		(5,540,540)	(10,004,261)
Cash flows from financing activities			
Share Capital			
Net cash (used in) financing activities		-	-
Net (decrease) in cash and cash equivalents		18,785,726	(9,451,286)
Cash and cash equivalents at 1st July-15		8,714,971	18,166,257
Cash and cash equivalents at 30th June-16	6	27,500,697	8,714,971

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30TH JUNE 2016

	Share Capital Kshs	Retained Earnings Kshs	Capital Reserve Kshs	Total Kshs
At 1st July 2015	5,000,240	(1,100,572,386)	485,003,469	(610,568,677)
Net profit for the year		(402,415,750)		(402,415,750)
At 30th June 2016	<u>5,000,240</u>	<u>(1,502,988,136)</u>	<u>485,003,469</u>	<u>(1,012,984,427)</u>

	Share Capital Kshs	Retained Earnings Kshs	Capital Reserve Kshs	Total Kshs
At 1st July 2014	5,000,240	(633,326,913)	485,003,469	(143,323,204)
Net profit for the year		(467,245,473)	-	(467,245,473)
At 30th June 2015	<u>5,000,240</u>	<u>(1,100,572,386)</u>	<u>485,003,469</u>	<u>(610,568,677)</u>

Summary of significant Accounting Policies

The principal accounting policies adopted in the preparation of these financial statements are set out below:

a) Statement of compliance and basis of preparation

The financial statements have been prepared on a historical cost basis for property, plant and equipment, financial instruments at fair value and liabilities at their fair value. The preparation of financial statements in conformity to International Financial Reporting Standards (IFRS) allows use of estimates and assumptions. It requires management to exercise judgement in the process of reporting applying the entity's accounting policies. The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of this entity and all values are rounded to the nearest shilling. In addition, the financial statements have been prepared in accordance with PFM Act, 2012, The Companies Act, and International Financial Reporting Standards (IFRS). The accounting policies adopted have been consistently applied to all the years presented.

Adoption of new and revised International Financial Reporting Standards (IFRS) and interpretations

In 2007 new and revised standards and interpretations became effective for the first time and have been adopted by the Company where relevant to its operations. This only resulted in changes in presentation and disclosures as follows:

Sales are the aggregate invoiced value of the residential rental services rendered

IFRS 7 Financial Instruments : Disclosures

This standard requires disclosures that enable users of the Financial Statements to evaluate the significance of the Company's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the Financial Statements. While there has been no effect on the financial position or results, comparative information has been revised where needed.

IAS 1 Presentation of Financial Statements

This amendment requires the Company to make new disclosures to enable users of the Financial Statements to evaluate the Company's objectives, policies and processes for managing capital. These new disclosures are shown in note 1 (a)

The following amendment to an existing standard will be mandatory for the Company's accounting periods beginning on or after 1 January 2008, but which the Company has not early adopted:

IFRIC 11 - Group and Treasury Share Transactions - from 01 January 2008

IFRIC 12 - Service Concession Arrangements - from 01 January 2008

IFRS 8 - Operating Segments - from 01 January 2009

IAS 23 - Borrowing costs (revised) - from 01 January 2009

b) Revenue Recognition

Sale of goods are recognised in the period in which the Company delivers products to the customer, the customer has accepted the products and the collectability of the related receivables are reasonably assured.

Sale of services are recognised in the period in which the services are rendered, by reference to completion of the specific transaction assesses on the basis of the actual service provided as apportion of the total services provided.

Revenue represents the fair value of the consideration received or receivable for the sales of goods and services and is stated net of adjustments.

c) Trade Receivables

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate. A provision for impairment is recognised in the profit and loss account in the year when the recovery of the amount due as per the original terms is doubtful. The provision is based on the difference between the carrying amount and the present value of the expected cash flows, discounted at effective interest rate. Receivables not collectable are written off against the related provision. Subsequent recoveries of amounts previously written off are credited to the profit and loss account in the year of recovery.

Summary of significant Accounting Policies(Cont'd)

d) Provision for liabilities and charges

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

g) Retirement benefit obligations

The company and the employees contribute to the National Social Security Fund, a national defined contribution scheme. Contributions are determined by local statute and the partnership's contributions are charged to the profit and loss account in the year to which they relate.

h) Taxation

Current tax is provided on the basis of the results for the year in accordance with the fiscal laws of Kenya.

i) Financial Liabilities

All financial liabilities including borrowings are recognised initially at fair value.

j) Cash and cash equivalent

Cash and cash equivalents include cash in hand, short term and call deposits with banking institutions and other short term highly liquid investments in money market instruments with maturities of three months or less from the date of acquisition net of bank overdrafts.

h) Property, Plant and Equipment & Depreciation

All categories of property, plant and equipment are initially recorded at cost less accumulated depreciation. Depreciation on PPE is recognised in the income statement on a reducing balance and on prorata basis in the year of acquisition. The annual rates in use are:

PPE	Depreciation Rate, %
Buildings	2.5%
Plant and equipment	12.5%
Motor vehicle	25.0%
Furniture and fittings	12.5%
Computer and accessories	30.0%
Office Equipment	12.5%
Water Meters	12.5%
Computer software	30.0%
Bicycles	25.0%

MOMBASA WATER SUPPLY & SANITATION CO. LTD
Reports and Financial Statements
FOR THE YEAR ENDED 30TH JUNE 2016

Notes to Financial Statements

	2016	2015
	Kshs	Kshs
2 Share Capital		
Authorised number of ordinary shares 5,000 per value of Kshs 1,000 each and 12 number of ordinary shares per value of Kshs 20.	5,000,240	5,000,240
Issued but not paid up 5,012 Ordinary Shares	<u>5,000,240</u>	<u>5,000,240</u>
3 Retained Earnings		
As at 1st July	(1,100,572,386)	(633,326,913)
Net Profit /(Loss) as at 30th June	(402,415,750)	(467,245,473)
	<u>(1,502,988,136)</u>	<u>(1,100,572,386)</u>
4 Capital Reserves		
As at 30th June	485,003,469	485,003,469
	<u>485,003,469</u>	<u>485,003,469</u>

MOMBASA WATER SUPPLY & SANITATION CO. LTD
Reports and Financial Statements
FOR THE YEAR ENDED 30TH JUNE 2016

Notes to Financial Statements (Cont'd)

5 Property, Plant & Equipment										
Cost	Plant and Equipment	Motor Vehicles	Furniture & Fittings	Computer & Accessories	Land and Building	Office Equipment	Water Meters	Computer Software	Bicycles	Total
	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs
As at 1st July 2015	5,899,794	30,118,779	6,363,253	20,290,230	3,969,803	10,405,343	75,245,146	21,816,891	12,241	174,121,479
Additions	231,509			286,672		4,184,609		837,750	0	5,540,540
As at 30th June 2016	6,131,302	30,118,779	6,363,253	20,576,903	3,969,803	14,589,952	75,245,146	22,654,641	12,241	179,662,019
Depreciation										
As at 1st July 2015	4,003,141	22,258,857	3,255,284	14,700,709	32,487	7,800,280	37,598,421	20,408,839	9,646	110,067,663
Charge for the year	251,296	1,754,753	366,993	1,502,614	97,313	713,873	4,445,381	588,404	579	9,721,207
As at 30th June 2016	4,254,437	24,013,610	3,622,277	16,203,322	129,800	8,514,154	42,043,802	20,997,243	10,226	119,788,870
Net Book Value										
As at 30th June 2016	1,876,865	6,105,169	2,740,975	4,373,580	3,840,003	6,075,799	33,201,345	1,657,398	2,016	59,873,149
As at 01st July 2015	1,896,653	7,859,922	3,107,969	5,589,522	3,937,316	2,605,063	37,646,725	1,408,052	2,595	64,053,816

The Company uses assets inherited from Coast Water Services Board for which administration fees is charged by both Coast Water Services Board and Water Services Regulatory Board at the rates of 9% and 1% of annual water sales net of adjustments respectively. This administration fee is recognised in the income statement.

MOMBASA WATER SUPPLY & SANITATION CO. LTD
 Reports and Financial Statements
 FOR THE YEAR ENDED 30TH JUNE 2016

Notes for financial statements (Cont'd)

	2016 Kshs	2015 Kshs
6 Cash and cash equivalents		
For the purpose of the cash flow statement, cash and cash equivalent comprise the following:		
Cash at Bank	23,454,115	7,403,746
Cash in hand	360,043	360,003
Posta Pay	624,310	545,588
Mpesa	3,062,230	405,635
Cash and cash equivalent	<u>27,500,698</u>	<u>8,714,971</u>
7 Amount due from shareholders	<u>5,000,240</u>	<u>5,000,240</u>
8 Trade and other Receivables		
Water Debtors	854,991,713	894,348,145
Prepayments	10,861,223	5,888,271
Provision for Bad Debts	(688,378,470)	(628,546,207)
VAT	60,861,624	48,282,950
Prepaid Salary-advance	400,713	805,249
Training Fees Receivable	0	8,097,718
Deposit & Sundries	500,000	500,000
	<u>239,236,802</u>	<u>329,376,126</u>
9 Service Gratuity Payable	<u>26,068,794</u>	<u>18,171,759</u>
10 Trade and other payables		
Trade Payables	917,879,398	783,046,304
Bank	10,838,523	-
Receipts Refundable	18,243,334	16,975,742
General provision	140,224,250	6,300,000
Audit Fees (provision)	2,384,043	1,874,043
Customer Deposits	74,088,196	69,474,927
Grant	6,343,510	-
Other Payables (Payroll Payables)	122,848,908	90,474,702
MCM - Bin/Refuse	2,523,393	2,523,393
	<u>1,295,373,556</u>	<u>970,669,111</u>
11 Provision for leave Pay	<u>23,152,965</u>	<u>28,872,959</u>

MOMBASA WATER SUPPLY & SANITATION CO. LTD

Reports and Financial Statements

FOR THE YEAR ENDED 30TH JUNE 2016

Notes to Financial Statements (Cont'd)

	2016 Kshs	2015 Kshs
12 Revenues		
Water Sales	669,452,685	702,972,317
Sewerage Sales	125,643,142	131,978,688
	<u>795,095,827</u>	<u>834,951,005</u>
13 Cost of sales:		
Purchase of Bulk Water	362,310,840	395,542,225
	<u>362,310,840</u>	<u>395,542,225</u>
This comprises bulky water supplies by Coast Water Services Board to the Company at a cost of Kshs 25 per cubic meter. No rebates have been granted for unaccounted water as Coast Water Services Board charges are based on actual sales by the Company.		
14 Other Incomes		
Tender Income	51,000	115,000
Grant Income	28,047,579	28,843,088
Commission on employees' insurance premiums	177,735	204,233
Interest income	1,915,491	1,551,548
Entry fee-Kipevu	20,000	20,000
	<u>30,211,805</u>	<u>30,733,869</u>
15 Operation and Maintenance		
Electricity , Offices and Kipevu Plant	8,528,300	11,640,193
Maintenance of water supply	9,735,862	27,554,485
Maintenance - Sewerage	2,431,857	2,325,556
Repair and Maintenance of Equipment	1,189,080	1,202,386
Repair and Maintenance - Buildings	1,103,087	3,839,861
Security & Surveillance	17,233,154	15,754,315
Laboratory Expenses	304,016	681,239
	<u>40,525,356</u>	<u>62,998,035</u>
16 Administration expenses:		
Postal and Telegrams	6,960	5,140
Internet Connection	4,782,687	3,932,543
Telephone Expenses	1,682,763	1,545,007
Licences	3,339,531	141,410
Software licences	0	5,411,494
Bank Charges	1,405,772	1,535,361
Mpesa Transfer chrges	928,802	652,703
Posta transfer charges	5,500	1,100
Cash shortages	1,036	18,501
9% Administration fees	76,833,609	74,845,659
1% Levy Fees - WASREB	8,521,775	8,305,986
Cleaning Costs	909,939	1,451,754
Newspapers & Periodicals	48,540	64,980
Subscription fees	573,926	583,060
Printing & Stationery	2,238,505	5,019,665
Courier Expenses	121,653	96,630
	<u>101,400,998</u>	<u>103,610,692</u>

Notes to Financial Statements (Cont'd)

	2016 Kshs	2015 Kshs
17 Staff Costs		
Acting Allowance	1,868,483	1,848,803
Basic Salaries	175,953,864	171,198,896
Leave Allowance	7,030,000	6,299,500
Entertainment Allowance	480,000	480,000
Leave-days Equivalent Pay	(5,719,994)	4,394,793
Casual Wages	3,929,245	4,871,408
Pension - Employers Contribution	121,381,964	19,866,935
House Allowances	68,393,500	67,553,500
Uniform and Protective Clothing	1,214,958	1,246,318
Performance Bonus	0	520,000
Staff Welfare Expenses	6,997,418	6,591,828
Workmen Compensation Insurance	310,103	402,181
Medical Expenses	36,234,166	35,696,808
Supervisory Allowance	405,000	432,000
Meter reading allowance	1,280,000	1,286,000
Training	2,495,101	4,473,883
Fringe benefit tax	120,000	0
Retirement Token	1,980,359	872,768
Gratuity	15,458,193	11,071,096
Extraneous duties allowance	2,120,500	2,647,500
Commute Allowance	20,285,000	19,692,000
Group Life Insurance	1,705,408	840,166
Daily Subsistence Allowance	4,525,600	5,539,079
Insurance - General	507,581	274,641
Sports Expenses	2,423,338	2,413,007
	<u>471,379,787</u>	<u>370,513,110</u>
18 Legal and Professional		
Audit Fees	860,000	2,000,000
Contracted Professional Services	4,433,380	0
Legal Costs	20,786,525	7,933,379
	<u>26,079,905</u>	<u>9,933,379</u>
19 Transport & Travelling		
Fuels & Oils	6,066,399	8,169,779
Tyres & Tubes	1,077,351	1,399,556
Insurance - Motor Vehicle	1,535,656	2,083,619
Air Travel	2,230,649	2,037,404
Repair & Maintenance Motor Vehicle	5,440,083	6,761,440
Bus Fares , Taxi	1,367,458	2,012,972
Parking fees, Tolls	54,910	83,090
	<u>17,772,505</u>	<u>22,547,861</u>
20 Directors Expenses		
Daily subsistence allowance (perdiem)	2,125,369	1,027,801
Travelling	1,242,535	0
Sitting Allowances	3,956,000	1,939,273
Lunches	79,450	
Personal Assistant Allowance	30,000	
Honorarium	0	480,000
	<u>7,433,354</u>	<u>3,447,074</u>
21 Advertising & Publicity		
Newspaper Advertisement	3,523,118	1,220,552
Radio & TV Advertisements	1,029,864	982,042
Other advertising expenses/CSR	3,483,827	1,910,367
Show Expenses	2,548,225	1,686,104
	<u>10,585,035</u>	<u>5,799,065</u>

Notes to Financial Statements (Cont'd)

	2016 Kshs	2015 Kshs
22 Other Operating Expenses		
Depreciation	9,721,207	10,164,658
Bad Debts	64,265,982	346,176,180
Fines and Penalties	34,991,920	0
Bad debts written off	78,853,946	0
	<u>187,833,055</u>	<u>356,340,838</u>
23 Finance Costs		
Interest Expense	2,402,548	2,198,068
	<u>2,402,548</u>	<u>2,198,068</u>
24 Operating Loss		
The following items have been charged in arriving at operating profit:-		
Staff Costs (Note 17 above)	471,379,787	370,513,110
25 Contingent Liability		
We have (provided) in the accounts additional general provisions of Kshs. 135M with allocation of Kshs. 100M to actuarial deficit to Pension Schemes, 5M to legal costs and 30M to penalties and fines resulting from possible liability on unremitted staff deductions, unresolved tax issues with KRA particularly VAT on sewer and outstanding sundry creditors. The company's estimated pension exposure is about Kshs. 160M. we have however provided for Kshs. 100M as we conclude negotiation of waiver of penalties and/or (part) of deficit for prior periods.		
26 Business Segments		
The major part the Company falls under the category of provision of quality and sufficient water and sewerage services.		
27 Country of Incorporation		
Mombasa Water Supply & Sanitation Company is incorporated in Kenya under the Companies Act. The Company is domiciled in Kenya		